PowerHousing Australia

Collaborating for a better housing future

2022-2023

Pre-Budget Submission

December 2021

1. Executive Summary

PowerHousing Australia welcomes the opportunity to provide feedback on the priorities for the 2022-23 Budget.

PowerHousing is a peak body representing a national network of 36 community housing providers (CHPs) who develop and manage affordable housing across Australia. Our feedback is framed by consultations across the year with our Members, our national roundtables and committees, and the PowerHousing Australia Board.

This Pre-Budget Submission focuses on the positive actions that the Federal Government can take to expedite the delivery of new social and affordable housing. The housing affordability crisis has only worsened since the last Federal Budget, challenging many more today than just the most vulnerable and lowest income households.

Mid-Year Economic and Fiscal Outlook (MYEFO)

As outlined in the Mid-Year Economic and Fiscal Outlook (MYEFO), PowerHousing welcomes the Government's increase to the National Housing Finance Investment Corporation's (NHFIC) Liability Cap by $500 million to support an additional 2,500 social and affordable houses. Moreover, the extension to the end date of the Commonwealth guarantee of NHFIC's total liabilities from 30 June 2023 to 30 June 2028 to facilitate the continuation of the Affordable Housing Bond Aggregator (AHBA), is also welcomed.

The growth of NHFIC in just over three years has been remarkable. Since NHFIC's introduction, the majority of PowerHousing's 36 CHP Members have accessed long-term, low-cost, government backed lending from the $2.7b loans approved by the NHFIC board, to deliver 14,000 new and existing homes.

The Review of the National Housing Finance and Investment Corporation Act 2018 conducted by Mr Chris Leptos AM was tabled in parliament on 28 October 2021. The Review reflected that NHFIC has been a 'singularly significant and successful intervention by the Commonwealth'. The final report included a number of recommendations that aim to build on NHFIC's early successes and to further enhance NHFIC's potential. An increase in the Liability Cap was one key recommendation. With a statement of expectations to see a crowding in of private investment, PowerHousing looks to assist this momentum. It is anticipated that further recommendations will be considered in the lead up to the FY2023 Budget and the 2022 Federal Election.

Key Proposals

Proposed measures seek to improve housing for all Australians and to maximise the efficient delivery of housing with available resources.

1. National Plan and Prioritisation of Affordable Housing

Create a coherent blueprint that governs Australia's housing policy with involvement from all levels of government.

2. Replacement Pipeline of Dwellings for Economic, Environmental and Social Impact

Replace old homes with brand new 7 star livable housing with density uplift. This is a central strategy to reduce the carbon footprint and create more efficient homes to boost wellbeing.

3. Incentivise Private Investment

Develop NHFIC's role and provide Government incentivisation to help bring more private financiers to partner in financing social and affordable housing.

Proposed Measures

1. A National Plan and Prioritisation of Affordable Housing Supply

Federal and state governments have roles to play around supporting and creating levers to boost new social and affordable housing. The new National Cabinet will have a greater role in maximising the policy objectives around social and affordable housing.

Unfortunately, too often Federal, State and Local governments act uncoordinated or at times against each other's purposes. This is a result of misaligned incentives, differing fund raising capacities/mechanisms, varying legal domains/responsibilities and a lack of a singular, coherent housing policy.

The 2021 Australian Infrastructure Plan's inclusion of community housing is an acknowledgement of how housing is vital to the physical, psychological and financial wellbeing of Australians. Housing is the place of security in the lives of Australians, that is now front of mind as a result of the COVID-19 pandemic. It must be a central focus of social infrastructure in the rebuild of the nation in this next phase.

Access to secure and affordable housing enhances the social, economic and civic participation of everyday Australians. Stable and affordable housing is a secure base for all, particularly for our most vulnerable. The home is a safeguard for many with physical or mental health issues and when universally designed can support people with a range of disabilities or challenges. The home is also where most family and domestic violence (FDV) is perpetrated and having a safe and secure home needs to be seen as a vital first step to help tackle FDV.

Under the guidance of the Housing Minister and National Cabinet Housing Subcommittee, a National Housing Strategy should be developed. The strategy would guide targets and housing development in Australia into the future. A comprehensive National Plan would guide planning, taxation along with demand and supply levers. The Plan should seek to prioritise housing for women who have experienced FDV, those accessing Specialist Disability Accommodation (SDA) and more broadly should look to the rejuvenation of old and inefficient housing stock.

A clear understanding of the unique needs of regional areas is also required, with a plan that includes guidance and protocols around needs assessments of local regional areas. This will help take into account the additional challenges and costs associated with building social and affordable homes in the regions and will enhance efficiencies.

A successful plan would help clarify the roles of all the key stakeholders, including Federal and State governments. It could look to support a vertical integration pipeline to ensure timely delivery on targets without compromising on long term outcomes. Ideally, the development of a high-level blueprint will guide the housing landscape broadly, but will include a focus on the provision of affordable housing for Australia's future.

2. Upgrade/Replacement Pipeline of Dwellings for Economic, Environmental and Social Impact

Australia's Long Term Emissions Reduction Plan outlines technology as key to balancing global emissions and economic development objectives, but that ageing housing stock will 'block the chimney' on any targets until sustainable technology takes over from coal, which is decades away. The Plan forecasts that by 2050, around 7 million homes will not be subject to improved energy efficiency measures in the National Construction Code, with no retrofitted improvements to enhance the fabric of older homes.

Almost 8 million older Australian homes are now well past their use by date, contributing 18 per cent of greenhouse gas emissions. Older homes often sit on larger 800-1000sqm lots, on flat land close to commuter routes and jobs. Disproportionality, they tend to be occupied by lower income families and younger Australians, who experience adverse financial, and wellbeing impacts due to living in a lower energy rated home.

As we emerge from some of the world's longest lockdowns, countless Australians are only too aware that average dwellings are cold in winter, hot in summer and prohibitively expensive to heat and cool. Added to this, these homes are not designed for universal lifelong living, whether that is accessibility for prams, ageing in place, or living with disabilities.

Clear benefits of new housing developments include minimising the environmental impact, while enhancing universal design and accessibility of homes, wellbeing, and economic benefits. As is the case in market housing, Australia needs to look to replace ageing social housing stock to help create more efficient social and affordable homes.

In late October 2021, the Australian Government NHFIC Review estimated that an investment of $290 billion will be required over the next two decades to meet the current and projected shortfall in the stock of social and affordable housing. Meeting this shortfall will require active participation by the private sector and a high degree of collaboration across all levels of government. The Australia Housing and Urban Research Institute (AHURI) argues that an additional 727,300 social housing dwellings are required by 2036 nationwide or an annual average growth of 5.5 per cent, to meet future projected need.

The housing market has seen scores of young Australians and families locked out of affordable housing. A pipeline of new, efficient housing could play a structured role in reaching Australia's carbon net zero targets, while also aiding housing affordability. Renewal of Australia's outdated housing stock offers a multitude of benefits that will supercharge emissions reduction and boost the economy. It is an opportunity to improve liveability, density, energy-efficiency and accessibility, and plan activity in the construction sector to keep economic recovery going. Every new dwelling constructed creates periods of work for up to 43 trades and subtrades.

To support replacement or upgrades of older social and affordable housing stock, a vertical integration pipeline can be employed to enhance efficiencies and contribute to sustainable housing outcomes. The proposed National Plan for Housing could look to outline a vertical integration model which will help streamline the entire development process from planning and development approval stage, through to financing, tendering, supply and labour, to build completion.

Incentivising the State and Local Governments to upgrade and replace many of the ageing 300,000 social housing dwellings and units that have low energy efficiency and are not universally designed is critical. Further programs of retrofitting at a minimum, will improve the environmental efficiency and reduce the cost of living in these dwellings.

3. Incentivise Private Investment

The demand for social and affordable housing continues to rise and it must be matched by a significant investment of capital. In addition to government backed finance (junior debt), private capital is required to realise Government policy ambitions.

There is potential for NHFIC's role to evolve, to include a focus on bringing in more private financiers to partner and help in meeting affordable housing objectives. Categorising private investment for CHPs as similar to that of an infrastructure asset class, will provide confidence in its stability and longevity.

Incentivisation from Government will be required to support the viability gap and to attract private investment to assist in expanding the community housing pipeline and enhancing programs. There is a greater opportunity for banks to provide primary finance to CHPs through long-term senior debt, with incentivisation and assurance through NHFIC being a buffer. With NHFIC focusing on junior debt and providing a strong backing as a secondary finance option, this will maximise the capital available to CHPs and will ultimately lead to greater affordable housing outcomes.

PowerHousing welcomes the opportunity to work with NHFIC and the Federal Government to effectively engineer this through crowding in private finance and to demonstrate that community housing is a safe, long-term and stable return asset class.

3.1 NHFIC Expansion

The National Housing Finance and Investment Corporation (NHFIC) commenced operations on 1 July 2018. Since then, NHFIC has provided over $2.7 billion in loans, supporting over 14,000 new and existing homes and saving more than $470 million in interest payments. There is no doubt that the funding NHFIC has provided to CHPs has improved the supply of social and affordable housing in Australia.

The recent NHFIC Review highlights the successes of NHFIC, but also highlights the estimated $290 billion public and private investment shortfall over the next 20 years. This results in a persistent supply gap of affordable housing. An expansion of the NHFIC's role and capacity is required in order to deal with this gap. This can be achieved through several measures such as increasing NHFIC's liability cap and expanding NHFIC's role into equity provision. There is a need for greater financing from banks to also help lessen the gap. Effective partnership between NHFIC and banks will encourage greater confidence for private investment, with a continued government guarantee and appropriate due diligence in place. With a greater reliance on banks, NHFIC could look to focus more on growth and innovation, as its role expands and diversifies.

Refine NHFIC Loan Making Process

There is opportunity to refine the NHFIC loan making process including:

a) Refine and streamline processes, potentially tailoring products to match the size and complexity of the loan.
b) Consider modifications to its loan conditions and settings. For example, consider its security package requirements that would allow CHPs more flexibility in negotiating loans from the commercial sector.
c) Consider longer dated loans – up to 20 years.

Raise NHFIC's Liability Cap

NHFIC has seen enormous success with the AHBA. The original $2 billion cap was expanded to $3 billion in the 2020-21 Federal Budget and further expanded to $3.5 billion in the most recent MYEFO. Reflecting the enormous appetite for safe, reliable debt, NHFIC has already reached this raised cap. Raising the cap is an easy and proven way to expand the supply of funds to the sector.

Extend the Government Guarantee

Also announced in the recent MYEFO, the Government committed to guaranteeing NHFIC's bond for an additional five-years to 30 June 2028. The Guarantee supports investor confidence by conferring the Government's AAA credit rating onto the NHFIC bond, lowering financing costs for CHPs that receive AHBA finance. Extending the guarantee for an even greater period would have minimum impact on the Government's balance sheets as CHPs and the sector have an extremely low risk profile but will provide surety around the longevity of bond loans.

Expand NHFIC's Role into Equity Provision

NHFIC's role is currently limited to loan provision. Expanding NHFIC's role into equity offers enormous potential to the sector. This can be done in the following ways:

a) Amending the investment mandate to enable use of the National Housing Infrastructure Facility (NHFIC) for direct equity investments. This would include grants into social and affordable housing, delivered by not-for-profit registered CHPs.
b) Aid in building an aggregate equity investment fund. (**See 3.2 Aggregate Equity).**
c) Aiding CHPs in building shared equity models where CHPs hold equity or NHFIC sells equity to the market (**See 3.3 Home Share/CHP Affordable Housing Shared Equity).**

3.2 Aggregated Equity

Affordable housing is emerging as a global investment class. With the right mechanisms and supports from the Federal Government, it can become a prominent investment opportunity for investors in Australia as it has already become in Europe.

Affordable housing equity is an attractive investment option. There is a significant weight of institutional capital seeking quality and scalable Environmental, Social and Governance (ESG) investments. Housing provided by CHPs is a strong potential source for investments that meet ESG goals. Institutional investors, including superannuation funds, also seek long-term, stable investments with the ability to ride through economic recessions. Despite the challenges of COVID-19, PowerHousing Australia's membership of CHPs have demonstration financial resilience with arrears and bad debts being stable, and in many cases improving.

As of yet, investors have been unable to tap into the affordable housing market through equity provision. This opens the door for Government to incentivise social and affordable housing investment through longer term equity structure. An equity investment structure can promote community housing as a viable investment while stimulating affordable housing supply and employment.

Potential Equity Investment Structure

A potential fund would offer equity or perpetual debt instruments tied to social and affordable housing projects, with a market-return being earned that is commensurate with the risk profile of the asset class. Together with already available debt finance, this can be leveraged for significant impact. The fund would be administered through an appointed fund manager. It is envisaged that NHFIC may be an appropriate custodian who would either act as the fund manager or appoint appropriate fund managers on its behalf.

The Government support could take two forms:

- Investment to assist in the development of a fund and the appointment of a fund manager.
- A small initial fund investment to provide liquidity for the fund. It is expected that the fund manager would then seek matched funding, multiplying the total fund value.

This Government investment is proposed as a commercial investment, with seed investment for a term. Once the fund has been established and a track record of projects established, which facilitates sufficient institutional investment, the Commonwealth would be able to exit the fund. It is anticipated that this term would be five to seven years, allowing for establishment of sufficient projects. Initial examination of the fund concept demonstrates viability to support a stable investment return.

CHPs would take a lead role in identifying and progressing projects which access the fund. CHPs would assemble projects, including matching subsidy to outcomes and using levers such as concessional land access, planning gains, tax concessions and, if and where available, revenue enhancement or support from Government. CHPs would arrange senior debt, most likely through NHFIC loans or banks, to form part of the capital structure alongside equity from the fund.

As a second stage, State Governments could be encouraged, through engagement from CHPs and representative bodies, to contribute land or facilitate land access (including on concessional terms where beneficial outcomes to the State may be demonstrated). The National Housing and Homelessness Agreement (NHHA) despite highlighting the need for collaboration between Federal and State Governments and providing around $1.6B each year to states, has not successfully maximised the role that State Governments could play in delivering more affordable and social housing outcomes for their local areas. Aligned with the National Plan for Housing as proposed above, there is opportunity to look at greater incentivisation and guidance to State Governments to boost social and affordable housing supply.

Other Asset Class supports - Home Share/CHP Affordable Housing Shared Equity

Shared equity home ownership is a concept of supported home ownership that in some countries is considered a viable and affordable alternative to full home ownership. There are many Australians who, if offered, would happily take up a 60-80% stake in a home.

A 20% equity investment into a property via a government structured entity, such as NHFIC, can support people to maintain their home ownership and assist to reduce accumulated debt. An equity investment allows for an investment vehicle to hold an asset that can be realised up to, at or after 10 years when the majority of homeowners refinance or sell their property.

The introduction of a low-cost shared equity program also benefits current homeowners who may be struggling with mounting costs, that they can retain their home through financial crisis and uncertainty, much of which has been evident during the COVID-19 pandemic.

Another option is for CHPs to retain the 20% equity ownerships as they have stock they could sell to current or future tenants on a shared equity basis so that the tenant, now homeowner, can raise the finance needed to acquire 80% of the property. This approach allows the transition of affordable tenants to home ownership and enables the CHP to leverage four properties constructed for every five properties sold. After a 10-year period the CHP would recover its equity position from the five properties, enabling it to build another property to meet the ongoing demand for social and affordable housing.

There is opportunity to use pre-existing systems and infrastructure such as Centrepay, that can play a significant role in increasing home share in Australia. Centrepay can become a vehicle that links banks and CHPs with tenants who are transitioning into shared home ownership, allowing for repayments towards shared equity to be made through the platform.

Other Asset Class supports - Five-Year GST Rule

Currently, there is a rule under the GST legislation which determines that a property ceases to be a “new residential premises” if it has been leased to residential tenants for at least five years prior to the first sale, and thus GST is not levied against it. However, the application of this 5-year rule is limited. The 5-year rule as it stands does not apply if the residential premises has been leased to residents by an endorsed charity on a GST-free basis.

This exception to the rule is detrimental to CHPs who, should they lease to qualifying tenants on a GST-free basis for more than 10 years, will have GST applicable when the property is first sold. Ideally, these properties are sold to the long-term tenants or others who have financial constraints, who would be further disadvantaged should GST be included at purchase. This issue is yet to be resolved and impacts CHPs who are instrumental in maintaining affordable housing across Australia. Consideration of this anomaly by the Australian Taxation Office provides confidence that a change is needed. Amending this rule is a simple and effective solution to help mitigate the affordable housing crisis.

Other Asset Class supports - Low-Income Housing Tax Credits

A possible taxation mechanism to create new housing supply, particularly affordable housing, would be the introduction of a Low-Income Housing Tax Credit (LIHTC). Such a system has been operating in the United States for over 30 years with impressive results.

Under this system, for-profit and not-for-profit developers compete in an annual round for tax credits earmarked by states under state-based terms and under broader federal rules. These tax credits are then sold to investors which can use them to lower their tax burdens. The equity raised can then fund the development of affordable housing.

A LIHTC system could easily be established in Australia. LIHTC fills a gap in the current housing tax system in Australia. Namely, this would create incentives for the private market to create affordable housing supply with CHPs.

4. Conclusion

PowerHousing is encouraged by the Federal Government's recent commitments to NHFIC. These commitments were informed by the NHFIC Review which PowerHousing and our Members contributed to. The announcements on increasing the Liability Cap and extending the Commonwealth guarantee for an additional five years, has been welcomed. However, there is more that can be done to maximise NHFIC's role and to meet the current demand for affordable housing. PowerHousing has been involved with NHFIC and the AHBA right from its inception through to its current form. The success of NHFIC proves that the Government can take positive, effective steps to increase the supply of social and affordable housing supply in Australia.

Unfortunately, Australia's housing crisis has only worsened since the last Federal Budget. Concerted action is required to prevent the situation from deteriorating further. This submission outlines a set of policies to deal with Australia's housing crisis. These policies are proven, cost-effective and deal with the central issues within Australia's housing system. LIHTC, for instance, is a system of tax incentives with a proven record in the United States which would help close the yield gap for the provision of social and housing.

PowerHousing and our CHP Members are ready to be partners of the Government. As scale developers of social and affordable housing, CHPs will form an essential component to deal with the undersupply of affordable housing. CHPs have the experience and connections from their work with NHFIC to facilitate any expansion of housing supply. The recent $500 million expansion of NHFIC's liability cap, for instance, is expected to support 2,500 social and affordable dwellings, provided through CHPs.

Australia's housing crisis is soluble. Through sensible policy by the Government, such as the policies mentioned here, Australia can begin to correct its dire state of housing affordability. These policies will involve a constructive collaboration with the community housing sector. PowerHousing and its CHP Members stand prepared to tackle this problem in the years ahead.

Appendix 1: About PowerHousing Australia

PowerHousing facilitates a national network of 36 Tier 1 and scale growth regulated community housing providers (CHPs) who develop and manage affordable housing across Australia. In 2021 alone our Members:

- Raised $1 billion in debt facilities
- Managed 72,000 dwellings providing safe, quality and affordable homes
- Housed 120,000 plus people across the nation
- Stewarded $22 billion in efficiently-managed social and affordable housing.

PowerHousing works to address affordable housing need through sharing and building on best practice in housing and community development, collaborating to mobilise collective resources, and providing an independent and influential collective voice for the biggest and most financially mature CHPs in the country.

PowerHousing provides networking for our Members through quarterly exchanges, the Annual Member Exchange and the International Housing Partnership, which involves the US, UK, Canada and is associated with New Zealand. Based in Canberra, we are located to promote the capacity of Members and represent their policy positions to the Federal Government and other stakeholders.

PowerHousing also partners with corporate affiliates and associates across national and international construction, development, finance, IT, HR and related sectors.

PowerHousing Australia's CHP Members work on a profit-for-purpose model; they acquire, develop and manage affordable and social housing dwellings throughout Australia, and any profits are directly reinvested back into affordable and social housing, repeating the process to house as many Australians in need as possible. Our Members bring capability and capital to partnerships with developers, sector partners, government (including local councils), and often focus on particularly vulnerable groups such as people affected by domestic and family violence, those needing employment and training, those living with disabilities and the elderly. As demonstrated with the landmark Ivanhoe Estate redevelopment project in Sydney, our CHPs are successfully partnering with large-scale developers to increase the supply of social and affordable housing.

The work of our Members is supported by government initiatives at both State and Federal level through enablers such as the National Housing Finance and Investment Corporation (NHFIC), which PowerHousing CFO Members and Affiliates supported to evolve into a successful piece of legislation in concert with Treasury. The Affordable Housing Bond Aggregator (AHBA) and National Housing Infrastructure Facility (NHIF) have opened up new funding and delivery options for our Members. Government is increasingly transferring aged public housing assets to CHPs to continue delivering social housing efficiently and with excellent levels of tenant satisfaction.

Our Members stand ready to partner with Government and the private sector to contribute to the social and economic recovery from COVID-19, and to create a legacy of a more resilient housing system through increased affordable housing.